

Montana Wheat and Barley Committee Summer Board Meeting
Hanging Gardens Conference Room, West Coast Kalispell Inn
July 12 – 13, 2006
Kalispell, Montana

(Note: Please read entire set of minutes as various topics are referenced in more than one place.)

The following were present for either a portion of or the entire meeting.

DIRECTORS

Karen Schott	Don Fast
Don Chaffee	Frank Schoonover
Janice Mattson	Brian Kaae

EX-OFFICIOS

Nancy Peterson, Director; Montana Department of Agriculture
Marvin Blodgett, Grain Merchandiser; General Mills

STAFF

Kim Falcon
Cheryl Tuck

GUESTS

Terry Whiteside, Freight Rate Consultant; Whiteside and Associates
Leonard Schock, Producer from Vida, Past MW & BC Director and Vice Chairman of U.S. Wheat Associates (USWA)
Peggy Stringer, Head Statistician; Montana Agricultural Statistics Service (MASS)
Bryce Clairmont, Son of Joel Clairmont; Deputy Director, Montana Department of Agriculture
Joel Clairmont, MDA Deputy Director and Administrator; Agricultural Development Division
Lola Raska, Producer from Fife and incoming Executive Vice President of the Montana Grain Growers Association (MGGA)
Jon Stoner, President; MGGA
Dan Kidd, Producer from Big Sandy, Past MW & BC Director

Vice Chairman Karen Schott called the meeting to order at 8:02 a.m. Don Chaffee, new director from Wibaux, replacing Robert Candee, (District 7), was introduced. Public comment was called for and necessary shifting of agenda items was discussed.

1) M/S/C Frank Schoonover/Janice Mattson – That the tentative agenda, as discussed, be adopted.

The Board dispensed with the reading of the minutes of the April 6-7, 2006 budget meeting. One correction was noted. Leonard Schock was Vice Chairman of U.S. Wheat Associates (USWA) at the time of the April meeting and will not become Chairman until the July 2006 Boise, Idaho USWA meeting.

2) M/S/C Brian Kaae/Frank Schoonover – That the minutes, as presented, and with the one noted change, be approved.

Kim Falcon briefed the Committee on trade teams scheduled for the next two months.

General discussion was held concerning chemical residue tolerances the trade teams will be interested in. It was suggested that perhaps, instead of concentrating on chemical usage in any subsequent messages to producers that emphasis be put on the better ways to take care of grain, especially stored grain.

Falcon reviewed upcoming business trips including:

Hard Red Spring Wheat Quality Tour – Fargo, ND, July 24-27, Don Chaffee to attend
Midwest Specialty Conference, Karen Schott to attend for Kim Falcon, MPLS, August 22-24
USWA World Staff Conference, Puerto Vallarta, August 6-10, Falcon to attend
Young Ag Leaders Conference, Big Sky, Sept. 29 – Oct. 1, any director who wishes to attend

University of Montana Advisory Council, Missoula, September 21-23, Falcon to attend
Latin American Barley Mission to Chile, Colombia, and Costa Rica, mid-October, Schoonover to attend
USGC SBS Barley Mission to Japan, Nov. 4-11, Falcon to attend as this is for state commission executives
USGC Board meeting, Mexico, December 2-6, Falcon and Don Fast to attend
Montana Grain Growers Convention, Great Falls, Nov. 27-Dec. 1, entire board, Falcon and Tuck to attend

3) M/S/C Janice Mattson/Frank Schoonover – That Kim Falcon will get additional information about the November 2006 Latin American Millers' Association Conference in Chile and then Falcon, the seated Chairman and Vice Chair will determine if the MW & BC will send a representative, and who that individual will be.

4) M/S/C Janice Mattson/Brian Kaae – That Executive Vice President Falcon's travel be approved through December 3, 2006.

Jon Stoner reported that the Montana Grain Growers Association Executive Vice President of eight years, Richard Owen, has resigned and Lola Raska will replace him in that position, effective August 14, 2006. The Board extended their congratulations to her.

Additionally, the MGGA was invited by Senator Baucus to testify at a Free Trade Agreement (FTA) hearing for Colombia. Carl Mattson, Conservation and Farm Programs Associate, is a member of the NAFTA working group to come up with uniform chemical labels all NAFTA countries will accept. MGGA has also been conducting Conservation Security Program (CSP) and other conservation program workshops. The MontanaMarketManager site now has basis charts available. A new, on-line Hedge-to-Arrive workshop has just begun and is generating good participation. A newly-formed Young Grain Growers group, initiated to make young farmers feel more welcome in the organization, has already been active in the recent MGGA Golf Tournament in Great Falls. Lastly, MGGA is continuing to work on the Farm Bill, for which a Great Falls hearing is slated August 17 and the organization will offer a series of fall listening sessions, as has been done in the past.

Regarding National Association of Wheat Grower (NAWG) activities, Dale Schuler, national president for the organization from Montana, testified for a Senate Commerce Committee on the Rail Competition Bill. NAWG hopes that the Surface Transportation Board will start to do its job. NAWG is working with cellulosic ethanol in Idaho, NAWG testified at a Farm Bill hearing with emphasis on the fact wheat does not have the safety net that other commodities have. On September 12, 2006, there will be a "fly-in" into Washington, D.C. with NAWG, American Farm Bureau Federation and Farmers Union members to call attention, once again, for the need for disaster assistance. NAWG is requesting patience regarding the Australian Wheat Board fiasco because the issue can't be tackled until the Cole Inquiry has been concluded. Stoner reported on his testimony for an FTA for Peru.

Lola Raska indicated to the Committee directors her immediate goal as incoming EVP of MGGA will be to become familiar with the new issues and be continually responsive to the producers.

Dan Kidd advised the Board that the CSP program is being studied, under the World Trade Organization framework, to see if it will be classified as a "green" or "amber" box issue. It falls under paragraph 12 and the U.S. has no allies to change the wording or intent of this paragraph.

A discussion was held to determine what will be the topics for MW & BC's portion of MGGA's convention November 29 – December 1, 2006. It was determined that "Transitioning into New Markets" would be the theme and Leonard Schock will visit in Boise with Mitch Skalicky, Regional Vice President of USWA/Central American-Caribbean Region, about being on half of the program, with Terry Whiteside explaining how we can get our grain to those new markets to present during the second half of the program.

It was also suggested that the MW & BC sponsor a "ProFarmer" break-out session and David Shelton, Executive Director; Wheat Marketing Center, could be contacted to conduct the session, concentrating on what buyers are looking at now, and perhaps including information on what the wet gluten testing means to the producer. The issue of chemical residues tolerances in each country were offered as other discussion topics. Mitch Skalicky could also be used in a break-out session if MGGA so desired and Skalicky is available.

Marvin Blodgett gave his "View From the Trade" report, observing that general drought conditions, if they persist, could result in a 500 million bushel U.S. carry-out this year. He has seen a lot of Hedge-to-Arrive dealings, contracted all the way into 2008. Farmers, with the current high prices and pending harvest, are cleaning out their bins. Basis levels for both spring and winter wheat are, not surprisingly, "crashing". Cash selling will continue to pressure the basis for, at least, the next thirty days, Blodgett speculated.

Dan Kidd reported on the GIPSA/FGIS Advisory Council meeting held in June. The federal budget for the program is still a concern. The inspection service is still running in the red and, as is the case almost universally, more talk is turning to privatizing this service. The Administration put some more money into GIPSA but not enough to build up any reserves. The new Artificial Neural Networking (ANN) technology which calibrates protein, requires less samples and results in a cost savings. There have been zero complaints. FGIS is going to a tonnage-based system, which enables exports to be certified without the need for a stowage exam.

So far, only forty requests for wet gluten testing have been received. This test mirrors protein but is no reflection of the quality of the protein. Still, Kidd suggests, the USWA needs to make sure our foreign customers use this test, even though there is no immediate benefit to them, but, longer term, it will help the U.S. to tighten its technology.

Kidd further suggested this wet gluten test is a baby step toward getting a rapid, consistent, affordable "blackbox" technology. The USDA is presently running a pilot quality survey program with sorghum producers. Next year soybean producers will be asked to respond, and the following years will involve wheat and barley producers. The outreach program is working well. Currently, 70% of personnel in the agency are eligible for retirement now and budget resources will not accommodate the hiring of new people.

Regarding present WTO negotiations, the U.S. negotiators are holding firm, feeling no deal is better than a bad deal. The U.S. is constantly under pressure to change its position. The U.S. is willing to give up amber and blue box issues if, in return, it gets meaningful market access. There is a log jam of FTA's to approve. Kidd feels there is a sense of hope for the FTA with Peru, but the Colombia FTA is far more important to the Montana farmers and there are major issues yet to be resolved.

The loan deficiency payment is another big issue. Peru is a 50,000 MT barley market, compared to Colombia, which is a 300,000 MT barley market.

Director Peterson briefed the Board on Montana Department of Agriculture activities, mentioning the Growth Through Agriculture program just issued \$400,000 in grants. The renewable energy field, in particular, is leading the value-added program. The State Hail Board insured 1.6 million acres this year, compared to 1.8 million acres last year. The Hail Board voted to return 30% of the premium back to producers. Anhydrous tank locks are currently being distributed. 900 export certificates have been written and 3,300 potato inspections have been conducted. The pulse crop advisory committee is working with a sister organization in North Dakota to set up their group. The MDA has had a preliminary request for looking at the possibility of a camelina check-off. Many things are happening with bio-diesel fuels and work is ongoing on chemical harmonization, trade barriers and rail issues. BSE is still a matter of major concern. The Country of Origin Labeling (COOL) draft rules are progressing. The Department is having to deal with Homeland Security on pandemic issues and food security matters. Director Peterson mentioned she had heard there were different irrigated and non-irrigated malt barley contracts, with dryland contracts being valued less and this has "ruffled some feathers".

Deputy Director Clairmont updated the Committee on the Grain Lab situation, reporting that Gene Schwantes has been designated Quality Assurance Supervisor. This means there is a vacancy in his former inspector position. The Lab is currently 20% ahead of last year at this time. The Lab needs to process 22,000 samples a month to keep even and currently they have run 25,000 – 27,000 samples. On July 7th a new fee schedule was implemented, which should make the Lab very competitive with the private labs.

The State Grain Lab has \$53,000 in the short term investment pool (STIP). This does not include the \$50,000 MW & BC grant for FY 2006. A van and a pickup have been purchased for \$31,000. Clairmont pointed out that often a trip to sample trains, for example, will pay a month's salary for an employee. An \$8,000 dockage machine was purchased, in addition to new windows and gutters. Presently, the air exchange/dust problem at the Lab is being examined.

Vice Chairman Schott asked Deputy Director Clairmont to develop a long term Grain Lab budget.

Terry Whiteside, in his Transportation Report, reviewed recent shipper meetings held in the state; the revenue to variable cost comparison method, which is more valid than utilizing mileage-based revenue; and the following projects he has been working on:

- Freight rate books for both barley and wheat
- Ex Parté 575 (paper barrier) filings
- Ex Parté 616 (fuel surcharge) hearing testimony
- Preparation of Rail 101 booklets for distribution
- Surface Transportation Board hearings on rail service and capacity issues, and the Churchill Project

Whiteside also outlined various scenarios for grain movement flow – if the Canadian Wheat Board should open a dual market, and added, in closing, that the U.S. Pea and Lentil Association has become very active on captive rail shipper issues.

Leonard Schock thanked the directors for their decision to pay the shortfall in dues owed to the USWA, especially at a time when many states will not be able to meet their funding commitments. Schock commented he felt Montana's interests are well represented, even when trade teams don't come to Montana, and he gave the example of the recent Moroccan team he joined up with in North Dakota. Regarding the recent Latin American Buyers' Conference sponsored by USWA, Schock mentioned there was 10 million MT of potential sales represented in the participants attending the conference.

Schock clarified that Latin America takes trains out of Fairview and Wolf Point, in addition to the PNW.

The Cole Inquiry of the AWB scandal has been extended to September. Issues center around the AWB activities sanctioned by the Australian government and not with Australian producers.

The Board adjourned for lunch and to drive to Creston to take part in the Northwestern Research Field Day tour.

The directors reconvened at 7:03 a.m. in Executive Session.

Falcon reviewed the financial statements covering the periods of March, April, and May, 2006. She commented that the MW & BC's spending authority for FY 2006 was expanded to the legislated level. Income and refunds are basically the same, but directors should be aware that the same refunding farmers may be selling more wheat and the size of the farm makes a difference in refunds requested. In almost a year, \$77,000 in interest on wheat and barley collections was earned.

While barley represents about 25% of the MW & BC budget, barley collections total approximately 20%. The comment from the floor was that in a couple years malting companies will again be "begging for barley".

Brian Kaae asked that State Grain Lab indirects be submitted as a separate proposal for future budget meetings.

Falcon advised that some expenses for research will need to be accrued.

Letters are being prepared to be sent to invitees to the Wheat Marketing Center Farmers' training and Elevator Managers' training sessions. It was suggested Schoonover and Chaffee attend one of the sessions, if possible (in mid-January or February); that the farm organizations be invited to send a couple representatives; and that Sean Fladager (KMON Radio) also be invited.

The directors requested that Rail Shipper 101 booklets be sent to those requesting refunds.

Brian Kaae was unable to attend the latest Northern Crops Institute (NCI) meeting because it was scheduled for the same time as the MW & BC Summer Board meeting, but he did report that the new person working on specialty crops at NCI has been so busy writing successful grant proposals that he was told to temporarily suspend that activity or he'd be unable to perform the work on all of those projects.

Janice Mattson reported the National Barley Foods Council (NBFC) meeting was postponed. The NBFC is still applying for a grant, which will greatly impact the funding level for the NBFC program. Mattson has encouraged the NBFC to join the Whole Foods Council. Washington state is considering the consolidation of not only the wheat and barley commissions, but also the grower group with the commissions.

Cheryl Tuck indicated commitment to keep the newly-designed and updated web site current, relevant and user-friendly and encouraged the directors to visit the site so they could better direct their constituents to specific areas of interest. The site was designed by Lola Raska, with great attention to the smallest detail and has received favorable comments from other state commission executives and Terry Whiteside. The next Web Trends report, which will track number of visits, most frequent search work leading to the site, etc., will be available at the October board meeting and will reflect only activity for the new site.

Don Fast briefed the new director on the function and structure of the U.S. Grains Council (USGC) and Advisory teams. The most current focus for the USGC has been the by-products of corn (bio-degradable plastics) and distilled dried grains.

USGC activities may also overlap into "wheat" areas but generally, corn, barley and sorghum are the commodities represented. All of the contacts Fast made at the latest meeting indicated how important NCI was to them, which underlines the fact that developing relationships in this way develops customers. Fast states the Latin American markets will be our "next Japan". Most buyers preferred their grain to be shipped by train because they had better control over sourcing the desired quality. A Peru FTA could give us a huge advantage in the wheat market – perhaps resulting in the U.S. acquiring up to 80% of this market. Both USWA and USGC have very competent people to help establish and maintain markets.

Vice Chairman Schott reported on the Bismarck, North Dakota Wheat Foods Council (WFC) meeting. A new communications director has been hired and a new public relations firm is launching a new campaign, "Mom – The Everyday Athlete".

WFC research on the health attributes of wheat is going well, according to Schott. Kansas funded the WFC at 84% and three other states are also plagued by drought-reduced production and will be cutting their contributions. Schott feels the industry perspective in the WFC is very valuable.

Directors indicated they wished to have a copy of the WFC media materials and a packet made up for each of them containing samples of the material we distribute.

Peggy Stringer advised the group that 167.7 million bushels of All Wheat production is forecasted for Montana. The first durum forecast was released July 12. The Montana Agricultural Statistics Service office is gearing up for the 2007 census, in addition to conducting various objective surveys. New wheat and barley varieties sheets will be released this week. Harrington is still the number one malting barley variety, with fifty percent of the production coming out of north central Montana. Harvesting has begun and is generally much ahead of normal. Topsoil moisture and subsoil moisture is considerably worse than last year.

A conference call with Chairman DeBuff was held during which time the cooperation between Wheat Export Trade Education Committee, U.S. Wheat Associates, and the National Association of Wheat Growers was discussed in order to confirm Montana's position at the upcoming USWA meeting regarding the future of WETEC.

Because the Board will have at least one new member at the October meeting, it was decided by consensus that Committee assignments should be tabled until then and officer elections will be held then, as well.

Don Fast congratulated and thanked Kim Falcon on her upcoming first year anniversary with the Committee.

5) M/S/C Frank Schoonover/Janice Mattson – That the meeting be adjourned at 10:45 a.m.